STATE OF MAINE
PUBLIC UTILITIES COMMISSION

BANGOR HYDRO-ELECTRIC COMPANY **STIPULATION**
Re: Alternative Rate Plan

Docket No. 2001-410

Bangor Hydro-Electric Company (BHE or the Company), the Office of Public Advocate and Industrial Energy Consumer Group hereby agree and stipulate as follows.

1. **Purpose:** The purpose of this Stipulation is to resolve all issues in this docket, except as otherwise specified herein, for the purpose of avoiding unnecessary litigation and expense and to jointly offer the Commission a single comprehensive BHE Alternative Rate Plan (ARP). In addition the proposed ARP enables the Commission to dismiss the pending management audit and rate case under Docket No. 2001-728 and the Parties recommend that that proceeding be dismissed by the Commission.

2. **Scope:** This ARP applies only to BHE's PUC jurisdictional distribution revenue requirement and rates, excluding both the revenue requirements and rates related to stranded costs which will be periodically adjusted in accordance with Section 3208 of Maine's Restructuring Law, and the revenue requirements and rates related to transmission, which are subject to FERC jurisdiction (Distribution Revenue Requirement or Distribution Rates).

3. **Effective Date and Term:** This ARP shall be effective from the date this Stipulation is approved by the Commission through December 31, 2007.

4. **Annual Percentage Price Change:** Each July 1, beginning on July 1, 2003, BHE's core Distribution Rates shall be adjusted in accordance with this Paragraph (Annual

Percentage Price Changes) and the change will be applied in accordance with Paragraph 12. The existing Distribution Rates are shown on Attachment 1. The Annual Percentage Price Change equals the sum of the Basic Rate Reduction, Mandated Costs, Net Capital Gains and Losses, Earnings Sharing, and Service Quality Penalties, provided there shall be no adjustment for Earnings Sharing or Service Quality Penalties on July 1, 2003.

In applying this formula, the Basic Rate Reduction will be included directly as a percentage. The other items will initially be dollar amounts that will be converted to percentages for inclusion in the formula. The conversion to percentages will be accomplished by dividing the sum of the dollar amounts by prior year revenues for billed sales for distribution service (including targeted rates and contracts at core distribution rates), not including stranded costs.

On March 15 of each year, beginning on March 15, 2003, the Company shall file its calculation (and all supporting information) of the Annual Percentage Price Change to take effect on July 1 of that year.

Other than changes in Distribution Rates pursuant to this Paragraph, BHE's Distribution Rates will not be changed prior to January 1, 2008 as a result of any filing to adjust Distribution Revenue Requirements under 35-A M.R.S.A. Section 307. The Parties agree that they will not request that the Commission initiate a proceeding to review or adjust BHE Distribution Revenue Requirements during the term of this ARP.

5. **Basic Rate Reductions:** For each Annual Price Change the Basic Rate Reduction shall be as follows:

July 1, 2003 - Basic Rate Reduction = -2.5%

July 1, 2004 - Basic Rate Reduction = -2.75%

July 1, 2005 - An amount (positive or negative) equal to the Inflation Index less 5.75%, but in no event will the Basic Rate Reduction be a decrease of more than 2.75%.

July 1, 2006 - An amount (positive or negative) equal to the Inflation Index less 5%, but in no event will the Basic Rate Reduction be a decrease of more than 2%.

July 1, 2007 - An amount (positive or negative) equal to the Inflation Index less 5%, but in no event will the Basic Rate Reduction be a decrease of more than 2%.

The Inflation Index shall be the average of the annual inflation rates for the 2 preceding years. The inflation rate will be based upon the Gross Domestic Product - Price Index ("GDP-PI"), chain type, as reported by the U.S. Department of Commerce, Bureau of Economic Analysis. The annual inflation rate will be calculated as the percentage change in the fourth quarter of one year from the fourth quarter for the preceding year.

6. **Mandated Costs:** There are two types of mandated costs that are beyond the Company's control. First there are nonrecurring events as a result of *force majeure*, which, by way of example, shall include events such as an extraordinary weather event, flood, riot, terrorism, sabotage, war, strike or labor disturbance (other than by BHE's employees) or acts of God. The second type of mandated costs are recurring or nonrecurring in nature and include ongoing costs that result from accounting, federal or state legislative, regulatory or tax changes. This second type of mandated cost will include either cost increases, decreases or or changes in revenue caused by the triggering events described herein.

Aggregate mandated costs during any calendar year in excess of $750,000 (with inclusion only of each item having a revenue requirement effect of greater than or equal to $50,000) will be recovered through the annual price change in Paragraph 4. For calendar year 2002 the annual $750,000 threshold shall be reduced proportionately to reflect the number of days in 2002 during which the ARP was in effect. When a nonrecurring mandated cost event occurs or upon the occurrence of a recurring mandated cost, the Company may defer on its books of account (without any presumption of the ratemaking treatment except as specifically authorized in this Stipulation), the mandated cost for future recovery in the next rate adjustment proceeding. Mandated costs that are nonrecurring in nature will be removed from rates following full recovery of the item.

7. **Capital Gains and Losses:** Capital gains and losses from the sale of operating property shall be treated as follows: (a) to the extent any individual capital gain or loss incurred in a year exceeds $50,000, all such items shall be combined to determine a total net capital gain or loss; (b) any total net capital gain or loss shall be netted against, or added to, mandated cost item(s) described in Paragraph 6 of this Stipulation; (c) to the extent the netting described in subparagraph (b) hereof results in a remaining total net capital gain or loss in excess of $50,000, such amount shall be passed through, or collected from customers in the same manner as a "nonrecurring mandated cost."

8. **Expiring Amortizations:** The existing amortizations of expenses, as previously approved by the Commission, are not intended to be affected by this Stipulation and no specific rate adjustment during the ARP will be made to reflect any expiration of any amortization.

9. **Earnings Sharing:** Beginning with the July 2004 price change, the price change will include a positive amount equal to fifty percent (50%) of any revenue deficiency below a Distribution Return on Equity ("Distribution ROE") of 5.0% for the Company for the prior

calendar year or a negative amount equal to any revenue surplus above a Distribution ROE of 17% for the Company for the prior calendar year. The Distribution ROE, which will be the starting point for determination of whether the earnings sharing mechanism is triggered, will be computed on a "financial reporting basis" adjusted as required by law or regulation to exclude revenues, expenses, rate base items and profits/losses (including the results of cost separation studies) that must be removed for setting Distribution Rates and adjusted to exclude transmission revenues and expenses and stranded costs revenue and expenses. Any amortization of the acquisition adjustment resulting from the Emera/BHE merger and the unamortized balance of the acquisition adjustment shall be excluded from the numerator and denominator of the earnings calculation respectively.

The common equity amount to be used for this calculation shall be the Company's 13 month average common equity balance excluding amounts related to any unamortized acquisition premium included in the common equity amount. The 13 month average balance shall be calculated by averaging the ending balance for each month of the year and the December 31st ending balance for the previous calendar year. The common equity for this calculation excluding any unamortized acquisition premium shall be capped at 45% of total capital, which shall include common equity, preferred stock, short-term debt, long-term debt, and any current maturities or sinking fund requirements of debt and preferred stock.

10. **Service Quality Penalties:** Penalties will be calculated as described in Paragraph 23. The first penalty adjustment, if any, will be included in the July 1, 2004 annual price change reflecting performance for the preceding calendar year. The adjustment will be in rates for one year. No penalties shall be imposed after January 1, 2008 for performance in 2007 under the

terms of this Stipulation. Parties are free to propose penalties after January 1, 2008 in a future proceeding based upon performance in 2007.

11. **Management Service Fees:** In modeling the results of the Stipulation, the parties assumed BHE will be paying management service fees to Emera or an Emera affiliate. However, this modeling assumption is not intended to approve any specific amount of management service fees or the prudence of BHE paying any specific amount of management fees. Before making any payment BHE must receive PUC approval under 35-A M.R.S.A. § 707 of a management service agreement outlining the scope of the services and the basis for the fees. Any approval of management fees is not intended to qualify these costs as a Mandated Cost under Paragraph 6.

12. **Application of Annual Percentage Price Change:** BHE will adjust each individual distribution rate element by the Annual Percentage Price Change as described in Paragraph 4 to produce new Distribution Rates. The Parties also agree that if, and when, the Commission rules in a rate design proceeding on rate design issues, the existing rate elements shall be changed on a revenue neutral basis to reflect rate design changes adopted by the Commission in such a proceeding and, to the extent the Commission orders subsequent price changes to be applied differently than described herein, the rate design order shall govern. The Parties agree that, when the Commission next sets stranded costs, nothing in this Stipulation is intended to predetermine the allocation of those costs.

13. **Service Quality Index:** The Service Quality Index ("SQI") is based on the indicators described in Paragraphs 14 through 20 and in Attachment 2. A baseline is indicated for each of the indicators. If the Company's performance does not meet the established baseline

for any of the indicators in any year, the Company may be subject to penalties according to the penalty mechanism described in Paragraph 22. For purposes of applying certain indicators, the Company's service area is divided into 4 divisions: Machias, Lamoine, Bangor and Lincoln as shown in Attachment 3 (BHE Service Areas).

14. **Customer Average Interruption Duration Index ("CAIDI"):** The baseline is 2.13 hours/year. When more than 10% of the customers in a BHE Service Area are affected by outages, all outages occurring in that Service Area associated with that event will be excluded from the calculation of this indicator until service is restored to 95% of the affected customers in the affected Service Area.

15. **System Average Interruption Frequency Index ("SAIFI"):** The baseline is 1.43 interruptions per year. When more than 10% of the customers in a BHE Service Area are affected by outages, all outages occurring in that Service Area associated with that event will be excluded for the duration of that outage from the calculation of this indicator until service is restored to 95% of the affected customers in the affected Service Area.

16. **Percent of Business Calls Answered:** The baseline is 80% of calls answered within 30 seconds. For purposes of this indicator, business calls are defined as calls to the Company's customer service business line, which receives both business calls and outage reports, as specified on customer bills and which are answered, either directly or after referral from the Company's Interactive Voice Response (IVR), by a BHE representative ready to render assistance and to accept information necessary to process the call. The time is measured from the time the call is received at the Company or, in the event the call is initially answered by the IVR system, from the time the customer elects to speak to a Company representative. Customers

shall be given an opportunity to elect to speak to a Company representative at the first level of options presented by the IVR system to the customer. An acknowledgement that the customer is waiting on the line does not constitute an answer.

17. **Service Order Timeliness:** The baseline is 89% of all service orders fulfilled by the goal dates as set forth in Attachment 2, page 2. This indicator will be based on a comparison of actual service orders fulfilled by the goal date with all service orders. When more than 10% of the customers in a BHE Service Area are affected by outages, all service orders throughout the Company will be excluded from the calculation of this indicator until service is restored to 95% of the affected customers in the affected Service Area.

18. **MPUC Complaint Ratio:** The baseline is set at 1.52 complaints per 1,000 customers per year. Complaints will be counted in the year they are accepted by the Consumer Assistance Division (CAD) of the MPUC. Acceptance of complaints by the CAD will be in accordance with existing CAD standards. Acceptance of any customer complaint may be challenged by BHE as part of the annual review of BHE's proposed Annual Percentage Price Change. This indicator may be replaced pursuant to the Mid-Period Review in Paragraph 25.

19. **Bill Error Rate:** The baseline is 0.40% annual error rate for customer bills.

20. **Market Responsiveness:** The baselines is 100% of all complete and properly transmitted enrollments received from competitive electricity providers processed within the timeframes specified in Chapter 322 of the Commission's rules; provided, however, that no penalty will be assessed if less than 1% of the enrollments (provided that 1% shall not be less than 1 enrollment) are not in compliance with this indicator. The absence of any penalty in certain circumstances under this Paragraph is not intended to alter in any way the Company's

obligations under Chapter 322 nor is it intended to modify the standard of performance required under Chapter 322. This Paragraph is not intended to limit the rights of anyone aggrieved by any violation of Chapter 322.

21. **Discretionary Exclusions:** The Company may request permission from the Commission to exclude data from the calculation of any indicator on days when specific events beyond the Company's control, including work stoppages or strikes, affect BHE's ability to maintain service quality ("Discretionary Exclusions"). BHE shall request Discretionary Exclusions within 45 days of the associated event and shall provide notice of such request to all parties. To the extent practical the Commission shall rule on all such requests within 45 days of the request.

22. **Penalty Mechanism for Service Quality Indicators:** BHE's annual performance, as measured by the above indicators, will be compared to the established baselines each year. Based on the 7 indicators, each indicator is worth 14.3 points on a 100-point scale. If the Company's performance fails to meet any of the established baselines, points will be deducted for each indicator for which the Company fails to meet the baseline. The deduction will be based on the percentage by which the indicator deviates from the baseline. The Parties intend that the provisions in this Stipulation related to service quality shall, unless otherwise indicated, be interpreted consistently with the comparable provisions of CMP's ARP 2000 approved under Docket No. 99-666.

A revenue reduction of $93,000 per point will be imposed for one year for each point . In any year the total maximum revenue reduction will not exceed $840,000 for all indicators. No penalty will be imposed if the total point deduction is less than 0.3 points. Point deductions less than 0.3 points for a given year shall be carried over to any future year penalty calculation.

23. **Reports:** The Company will file bi-monthly reports on all SQI indicators with the appropriate supporting data.

24. **Customer Report Card:** Each July, beginning in 2003 and based upon the prior year's performance, BHE will distribute an annual report card to all customers on the Company's service quality and reliability performance for the previous calendar year as measured by the CSRI indicators. The report will list the indicators and baselines and will indicate the Company's actual performance for the previous year. Any penalties imposed pursuant to the penalty mechanism described above will also be reported.

BHE will include on each customer's first bill issued after July 1st, the following statement: "A Report Card related to BHE's service quality performance for the last year is provided with this month's bill (and is also available on-line at www.bhe.com)" and, if applicable, "A reduction in rates related to BHE's service quality performance is reflected in your bill".

25. **Mid-period Review:** On or before July 1, 2004, the Parties shall commence a mid-period review of the following BHE service quality indicators.

The Parties agree to consider replacing the MPUC Complaint Ratio indicator during the mid-period review. The Parties agree to work collaboratively with the Commission staff to develop a new indicator(s), such as periodic customer surveys targeted to customers who have had recent contact with the Company, to replace the MPUC Complaint Ratio Indicator.

The Parties also agree to consider adding an appropriate indicator to measure power quality.

If the Parties reach agreement on either a new or replacement indicator, it will take effect on January 1, 2005 subject to Commission approval. In the event that the number of indicators changes as a result of this Paragraph, the point value per indicator will be adjusted accordingly.

26. **Power Quality Task Force:** The Parties agree to convene a statewide Task Force of interested stakeholders, including the Parties, the Commission staff, Central Maine Power Company and Maine Public Service Company, to investigate alternatives and, where appropriate, provide recommendations to the Commission for a new indicator for measuring power quality service performance. The Parties agree to investigate whether Momentary Average Interruption Frequency Index (MAIFI) should be included as an indicator. The Task Force will use best efforts to develop a recommendation in time to be considered in the Mid-Period Review. BHE agrees to measure MAIFI, pursuant to IEEE Standard 1366-1998, or a more recent version, if any, and report MAIFI measurements to the Task Force so the measurements may be used to develop a benchmark for any future power quality indicator.

27. **Pricing Flexibility:** The Company may change its prices in accordance with the terms and conditions for pricing flexibility as approved by the Commission under Docket No. 2001-194 dated March 12, 2002. Targeted Rate Schedules and Targeted Rate Contracts entered into during this ARP which by their terms extend more than 1 year beyond the term of this ARP do not qualify for automatic 30-day approval in Section II B or III B of the BHE Pricing Flexibility Program. The Company shall on December 1st of each year update the Marginal Cost in accordance with Section IV (A) of the BHE Pricing Flexibility Program.

28. **Prudency Reviews:** The Stipulation is not meant to prevent the Commission from reviewing the prudency of the Company's operations and does not preclude any such

review either on the Commission's own motion or upon request of another party. Any cost disallowance or other penalties would only be assessed against the Company in a situation where the earnings sharing mechanism was triggered or the Company seeks recovery of a mandated cost. Costs determined by the Commission to be imprudent in a Commission prudency review will be excluded in the calculation of return on equity for purposes of the earnings sharing mechanism. This Stipulation is also not meant to prevent the Commission from investigating BHE service quality issues during the ARP, including the causes of outages and whether the Company's management practices contributed to any deterioration in service quality.

29. **Annual Reporting:** BHE will file specified information each year on March 15 that may be used to compute the Annual Percentage Price Changes and to ensure compliance with all aspects of the ARP. Information will include:

(a) Annual Percentage Price Change and associated components as put forth in Paragraph 4,

(b) Review of SQI indicators for the preceding year and supporting data and an explanation of any substandard performance,

(c) Annual Reliability Improvement Report, to include:

- (1) Analysis of service reliability for each BHE Service Area; and
- (2) Identification of "worst" circuits, analysis, and description of improvements undertaken or planned;
- (3) A description and update of BHE's power quality program.

(d) Review of BHE's overall compliance with the provisions of the ARP.

30. **End-of-Period Filing:** By May 1, 2007, the Company shall file revenue

requirement information based upon calendar year 2006 consistent with the applicable requirements contained in Section 5 of Chapter 120 of the Commission's Rules. Parties shall have the right to make data requests of the Company in accordance with PUC procedural rules and file written comments and responsive comments. Any party shall have the right to request changes in Distribution Rates to be effective on or after January 1, 2008 in accordance with PUC procedural rules.

31. **Accounting Conventions:** This ARP is not deregulation either from a ratemaking or an accounting perspective. Rather it is a change in the method employed to regulate price and cost of service recovery. The Company will continue to be subject to Generally Accepted Accounting Principles and PUC Accounting Orders because the rates under this ARP are intended to and meet the criteria of Statement of Financial Accounting Standards No. 71 "Accounting for the Effects of Certain Types of Regulation." In particular, the accounting standards which specifically apply to regulated industries were considered in designing the Alternative Rate Plan.

32. **Requests for Deferral of Employee Transition Costs:** The Company shall be allowed to defer employee transition costs incurred from January 1, 2002 through December 31, 2003 to produce reductions in the cost of operations and maintenance. Such costs shall include, but not be limited to, costs related to early retirement or severance of BHE employees. BHE shall file a summary of these costs for the preceding calendar year on March 15, 2003 and March 15, 2004. The costs shall be amortized over 10 years. The PUC may investigate the prudence of such costs in accordance with Paragraph 28.

33. **Incorporation of Attachments:** All attachments referred to in this Stipulation

are incorporated herein by reference and are intended to be considered as part of this Stipulation as if their terms were fully set forth in the body of this Stipulation.

34. **Waiver of ex parte rule:** The Parties to the Stipulation hereby waive any rights that they have under 5 M.R.S.A. §9062(4) and Section 742 of the Commission Rules of Practice and Procedure to the extent necessary to permit the Advisory Staff to discuss this Stipulation and the resolution of this case with the Commissioners at the Commission's schedule deliberations, without providing to the Parties an Examiners Report or the opportunity file Exceptions.

35. **Record:** The record on which the Parties enter into this Stipulation and on which the Commission may base its determination whether to accept and approve this Stipulation shall consist of BHE's request for approval and all attachments thereto and any other material furnished by the Advisory Staff to the Commission, either orally or in writing, to assist the Commission in deciding whether to accept and approve this Stipulation.

36. **Legal Effect of the Stipulation:** This Stipulation shall not be considered legal precedent, nor shall it preclude a party from raising any issues in any future proceeding or investigation on similar matters subsequent to this proceeding.

37. **Integrated Agreement:** This Stipulation represents the full agreement between the Parties to the Stipulation and rejection of any part of this Stipulation constitutes a rejection of the whole.

38. **Acceptance by Commission:** If not accepted by the Commission in accordance with the provisions hereof, this Stipulation shall not prejudice the positions taken by any party before the Commission in this proceeding and shall not be admissible evidence therein or in any other proceeding before the Commission.

Respectfully submitted this 25th day of April, 2002.

OFFICE OF THE PUBLIC ADVOCATE

By______________________________________

INDUSTRIAL ENERGY CONSUMER GROUP

By______________________________________

DONNA L. ROBINSON

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BANGOR HYDRO-ELECTRIC COMPANY

By______________________________________

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